

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Polanco Analyst: Garnier Bill Number: SB 756

Related Bills: See Below Telephone: 845-5322 Amended Date: 9/10/99

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Omnibus Tax Bill

 DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended .

 AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

 AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended .

 FURTHER AMENDMENTS NECESSARY.

 DEPARTMENT POSITION CHANGED TO .

 REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED STILL APPLIES.

 X OTHER - See comments below.

This bill was amended into its present form on the last day of the 1999 Legislative Session, but was not enacted this year. All but two items, the temporarily increased dependent exemption credit and extension of the MIC to duplication of prerecorded videotapes and disks, were included in other bills this year. Many of the provisions in the bill have an operative date of taxable and income years beginning on or after January 1, 1999.

As a two-year bill, this measure could be enacted in the second year of the session. If the provisions of this bill were enacted by March 15, 2000, they would be operative for the current operative date of taxable or income years beginning on or after January 1, 1999.

If the bill were enacted with its current operative dates, the Department would have difficulty in properly and efficiently administering the changes, particularly as they relate to Personal Income Tax Law taxpayers. New tax booklets, or other forms of information, would need to be mailed to taxpayers with instructions regarding the changes contained in this bill. Even if enacted in January 2000, it is unlikely that the booklets and instructions could be printed and mailed in time for the April 15th filing deadline.)

The author's office has indicated that the author is not desirous of moving the bill in its present form during the 2000 Legislative Session.

This bill would:

- temporarily increase the dependent exemption credit from \$227 to \$240 for the 1999 tax year only.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> N	<u> </u> OUA	<u> X </u> PENDING

Department Director

Date

Gerald Goldberg

11/04/1999

- expand the Manufacturers' Investment Credit (MIC) to include establishments described in Standard Industrial Classification (SIC) Code 7819 that are primarily engaged in manufacturing prerecorded videotapes and disks.
- create a new non-refundable credit for 50% of the amount contributed to an eligible "community development" corporation. The community development corporation must provide facilities or programs for low-income individuals.

This provision was included in AB 1080 of the 1999 Legislative Session, except that the credit provided by that bill would be refundable.

- provide a non-refundable tax credit equal to 10% of qualified wages and salaries paid to employees and contractors retained by the taxpayer in connection with the production of or musical scoring for a television program or motion picture for which at least 75% of the total production labor costs or principal photography occurs in California.

This provision, as a refundable credit, was contained in AB 358 and AB 454 of the 1999 Legislative Session.

- repeal the capital loss limitation and carryover provisions for corporations, effective for income years beginning on or after January 1, 1999. Capital loss carryover amounts from income years beginning before January 1, 1999, would continue under the current rules.

This provision was also contained in AB 1208 and AB 1229 of the 1999 Legislative Session.

- change the method used to determine the deductibility of alimony paid by nonresidents and part-year residents. The alimony deduction would be prorated based on the taxpayer's California source income divided by the taxpayer's income from all sources. This would be consistent with the U.S. Supreme Court's decision in Lunding v. New York.

This provision was also contained in AB 1208 and AB 1229 of the 1999 Legislative Session.

- These provisions would conform to numerous federal tax law changes occurring in 1998. Additionally, this bill would conform to three other federal items occurring before 1998. The bill also would make 12 technical nonsubstantive changes to California law. The federal conformity items are:

1. Deductibility of Meals Provided for the Convenience of the Employer.
2. Employer Deductions for Vacation and Severance Pay.
3. Certain Trade Receivables Ineligible for Mark-To-Market Treatment.
4. Exclusion of Minimum Required Distrib. from AGI for Roth IRA Conversions.
5. Farm Production Flexibility Contract Payments.
6. Treatment of Deductible Liquidating Distributions of RICs and REITs.
7. Tax Treatment of Cash Options for Qualified Prizes.
8. Exclusion from Income for Employer-Provided Transportation Benefits.
9. Payments Received Pursuant to the Ricky Ray Hemophilia Relief Fund Act.
10. Statute of Limitations for Disabled Taxpayers.
11. Election to Expense the Cost of Certain Depreciable Assets Permitted Under the B&CTL

12. AMT Treatment of Charitable Contributions of Appreciated Property.
- 13 Club Membership Dues
14. Waiver of the Estimated Tax Penalty.
15. 1998 Federal Technical Changes.
16. Technical Amendments.

Except for Item 13, these conformity provisions were included in AB 1208 of the 1999 Legislative Session. Item 13 would disallow the deduction of membership fees paid to any club organized for business, pleasure, recreation or other social purpose, thus conforming state law to federal law.

If the bill were enacted into law and effective for taxable or income years beginning January 1, 2000, unknown but significant costs would be incurred by the Department as a result of increased taxpayer inquiries, processing of an unknown, but substantial number of additional refunds, computer program changes and additional manual processing.

The revenue estimate assumes enactment of this bill before March 15, 2000, with specified provisions applying to taxable and income years beginning January 1, 1999. If the bill were enacted after March 15, 2000, and applied to taxable and income years beginning January 1, 2000, the revenue estimates would dramatically change.

Senate Bill 756 (As amended September 10, 1999)			
Effective January 1, 1999	Fiscal Year Impact		
Assumed Enactment Prior to March 15, 2000	(in millions)		
	1999-0	2000-1	2001-2
One-year Dependent Exemption Credit Increase	-\$51	-	-
Extend MIC to Include SIC 7819	-\$2	-\$2	-\$2
50% Credit for Contributions to a Community Dev. Corp.	Minor Loss	-\$3	-\$7
10% Wage Credit for Motion Picture & Television Programs	-\$29	-\$50	-\$42
Capital Loss Deduction for Corporations	-\$5	\$1	\$3
Alimony Deduction for Nonresidents & Part Yr. Residents	-\$5	-\$2	-\$2
Conformity Items	\$23	\$0	-\$3
TOTALS	-\$69	-\$56	-\$53

Board Position

Pending.